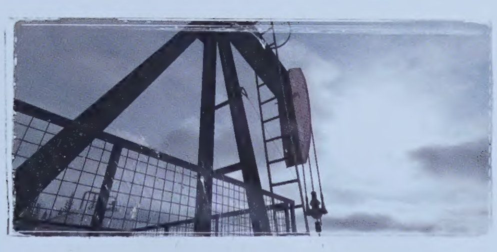
Berkana
ENERGY CORP.

Berkana~ Ancient word
for birch tree.
The Norse Rune for rebirth
and transition.
Berkana fulfills its
growth *potential*
through integrity, fairness,
knowledge and
a commitment to excellence.



2006 Annual Report

Corporate Profile

Berkana Energy Corp. is a dynamic Calgary based public resource company actively pursuing crude oil and natural gas in key franchise areas of the Western Canadian Sedimentary Basin. The Company is focused on creating long-term value through prudent operational and financial management. Berkana has a solid business plan for sustainable growth that includes low risk development, high impact exploration and strategic acquisitions in each of its three franchise areas: Rimbey, Kaybob and Red Earth, Alberta. Berkana's common shares trade on the TSX Venture Exchange under the symbol BEC.

ANNUAL MEETING

Shareholders are cordially invited to attend the Annual General and Special Meeting of Berkana Energy Corp. to be held on Wednesday, May 23, 2007 at 10:00 a.m. (Calgary time), in the Marquis Room of the Fairmont Palliser Hotel, 133 Ninth Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to CIBC Mellon Trust Company at their earliest convenience.

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Berkana is a financially strong and opportunity rich junior oil and gas exploration and production company. We have a healthy balance sheet that provides us with the financial flexibility required to fund and grow existing operations and acquire new assets.

Performance Highlights

For the Month Ended December 31	2006
($ thousands, except where otherwise noted)	
Financial	
Petroleum and natural gas sales	4,854
Cash flow from operations (1)	2,333
Per share – basic and diluted	0.03
Net earnings	472
Per share – basic and diluted	0.01
Capital expenditures	4,338
Working capital deficiency	(3,734)
Revolving credit facility	(3,100)
Shareholders' equity	72,613
(# thousands)	
Share Data	
Total shares outstanding	
Basic and diluted	67,497
Weighted average shares outstanding	
Basic and diluted	67,497
Operating	
Production	
Natural gas (mmcf/d)	13
Crude oil (bbls/d)	339
Natural gas liquids (bbls/d)	431
Total (boe/d) (6:1)	2,886
Average sales prices	
Natural gas ($/mcf)	8.68
Crude oil ($/bbl)	68.34
Natural gas liquids ($/bbl)	54.00
Total ($/boe)	54.26
Wells drilled – gross (net) (#)	
Gas	1 (1.0)
Total	1 (1.0)
Drilling success rate (%)	100

(1) Cash flow from operations is defined as cash provided by operations before changes in non-cash operating working capital.

Letter to Shareholders

GLENN D. GRADEEN · PRESIDENT & CHIEF EXECUTIVE OFFICER

WELCOME TO BERKANA

OUR COMPANY HAS COME THROUGH AN EXTRAORDINARY YEAR of transformation, growth and renewal. Berkana Energy Corp. began active operations only on December 1, 2006 as a result of the business combination between Rosetta Exploration Inc. and a wholly owned subsidiary of Murphy Oil Company Ltd. Rosetta issued common shares to Murphy in exchange for all of the shares of the subsidiary, which held Murphy's lands, production and related infrastructure located in the Rimbey area of central Alberta. Upon closing the transaction, Rosetta changed its name to Berkana Energy Corp.

We transitioned our business plan from high impact exploration to lower risk growth by adding cash flow from a stable producing property and a suite of lower risk drilling opportunities. We have set an objective to grow production aggressively at 20% to 30% annually – considerably faster than our peer group – from our lower risk drilling opportunities and will manage that growth in a fiscally conservative manner.

The word "Berkana" also means "birch tree," which provides an excellent metaphor for our Company. Our roots make us unique in the junior energy sector, providing us with several competitive advantages to facilitate our aggressive growth plans, including:

- a legacy under-developed property (with significant development potential) at Rimbey acquired in the transaction with Murphy;
- two new discovery areas at Kaybob and Red Earth that include significant development potential;

- a portfolio of high potential impact exploration opportunities that could enable us to exceed the high end of our growth targets. These opportunities were inherited from Rosetta, which invested five years in assembling and advancing regional geological studies and developing an impact exploration portfolio; and
- A drilling inventory of over 100 locations on a substantial undeveloped land base of over 150,000 net acres.

At the time of this writing, our winter drilling program is well advanced and we have already added sufficient new reserves to replace our forecasted 2007 production. Thus far, the drilling program has exceeded expectations and we are on track to deliver on our growth targets this year.

Berkana is a financially strong and opportunity rich junior oil and gas exploration and production company. Current operations are focused on three franchise areas. At the end of 2006, we had sustainable productive capacity of 2,400 to 2,500 boe/d, 7 mmboe of proved and probable reserves, over 150,000 net acres of undeveloped land and marginal debt relative to our cash flow.

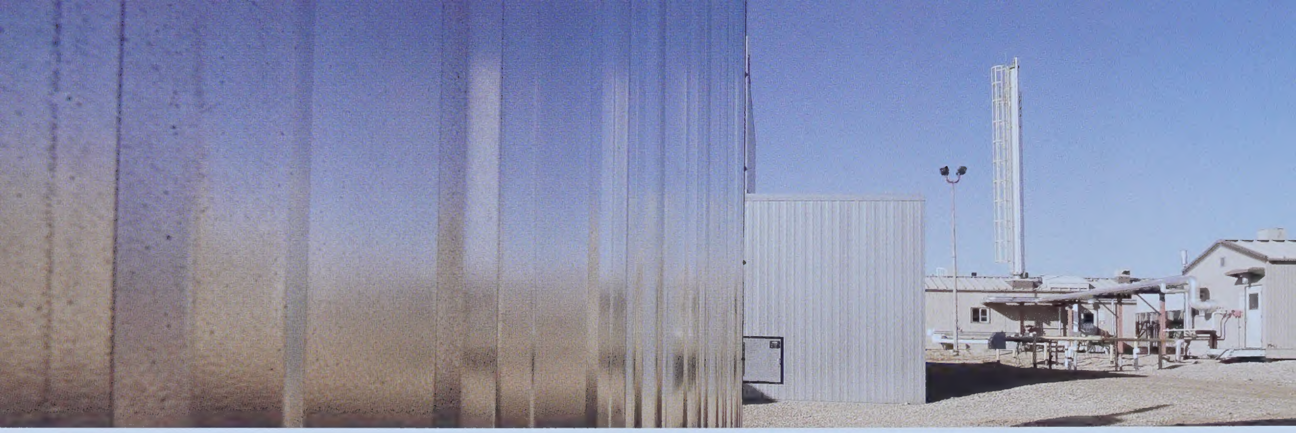
Berkana's largest current shareholder, a subsidiary of Murphy Oil Corporation, strongly supports our business plan through its participation on our Board of Directors. It offers us access to resources and insights from its activities worldwide, encourages our efforts to grow the Company aggressively through drilling and acquisitions, and is fully aligned with the public shareholders in seeking accretion in the value of its equity stake in the organization.

With an energized and experienced management and technical team, we are ready to aggressively grow Berkana by executing our strategic plan, which is unique amongst junior companies. I welcome all new and returning Rosetta shareholders to the Berkana family.

"Berkana" is an ancient Viking symbol, known as a Rune, that signifies renewal, rebirth and growth, and that the time is right to implement new ideas. Our Company has itself come through an extraordinary year of rebirth and is well positioned for significant future growth.

OUR STRATEGY FOR GROWTH

Berkana is firmly rooted for continuous long-term growth. Every property we operate possesses the characteristics of high operating margins combined with substantial growth potential. Our exploration, development and acquisition activities are geared to ensuring the Company's longevity and increasing per share production and reserves, and therefore, shareholder value. The business plan is well balanced between short and long-term growth and is based on roots that have depth: depth of opportunities, depth of finances and depth of team.



Depth of Opportunities

We manage risk by balancing capital projects between the more predictable growth from lower risk exploration and development drilling and the higher risk associated with high impact exploration. With over 100 identified drilling projects covering over 150,000 net acres of undeveloped land, we have a solid base from which to grow.

At Berkana, we are only interested in "quality" projects. The Berkana team subscribes to the "Model – Benchmark – Measure – Upgrade" philosophy. By systematically disposing of assets that are not working or that are not meeting our benchmarks for operating margins, development upside or returns (these are identified as the bottom 10% to 20% of our assets), we improve the overall quality of our assets plus we redeploy our capital into those projects that are working well. The result is a constant upgrading of our asset base, improving returns for our shareholders and renewing our Company. The Japanese call this continual commitment to improvement "kaizan," the Vikings referred to renewal as "Berkana."

Depth of Finances

An important component of managing your Company involves maintaining financial discipline and strength. Berkana's strategy is to fund its current $34 million exploration and development program with available free cash flow generated from its producing assets. Our capital programs are designed to consider different risk profiles and structured so we can react quickly to changing circumstances by shifting capital expenditures between different franchise areas, different projects and even different commodities. We are committed to investing at least 80% of our Company's time, effort and capital to low risk growth projects and up to 20% to high potential impact exploration opportunities where a success would have significant impact on value creation.

Our financial strength leaves us well positioned to review acquisition opportunities that are complementary to our operations, add exploratory acreage from new or to existing franchise areas and that meet our strict financial criteria. The strength of our balance sheet provides us with the financial flexibility required to fund and grow existing operations and acquire new assets.

Depth of Team

We have been systematic about attracting the quality people required to implement our growth strategies. Over the past several months, we have enhanced our people resources and knowledge expertise in all areas of development, operations and finance. This team is focused on the question: "How can we methodically grow Berkana into a solid intermediate Canadian E&P company having over 10,000 boe/d of production?"

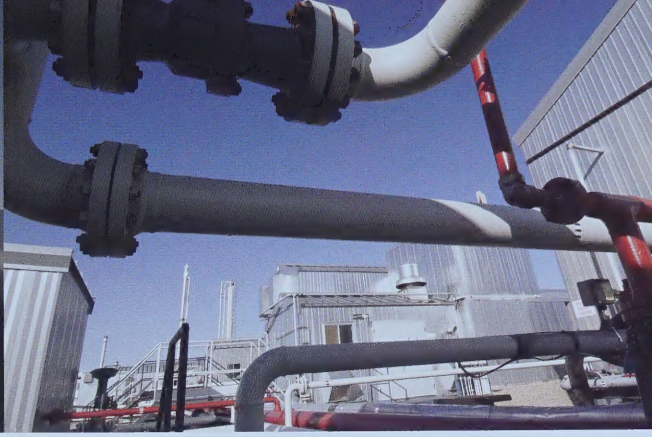
POSITIONING FOR OUR FUTURE

If 2006 was a year of transition for Berkana, then 2007 will be a year of positioning. We see the continued near-term volatility of energy prices and the uncertainty of new and unexpected legislation on Royalty Trusts as creating major opportunities for our Company. This is why we are so driven to position Berkana with a sizeable production platform, high operating margins and a substantial inventory of drilling prospects. We strongly believe we have the resources and the ability to grow Berkana to an intermediate size producer in this environment and will use our years of careful basin study to grow, acquire and develop in those areas where we can deliver superior results.

We will take advantage of the current economic and industry climate by focusing our activities in areas that generate better margins and by maximizing the use of our financial and cash flow strength.

Peter Tertzakian's book, *A Thousand Barrels a Second*, is excellent reading for anyone involved in the energy business. In it, he explains that there is no economically viable alternative energy source to oil and gas on the horizon and that our society will be challenged to both increase worldwide production and to conserve more.

This environment will generate significant growth opportunities to those energy producers who have the vision, the internal resources and the shareholder support to grow in times of price volatility. We ask, "How better to take advantage of the coming breaking point, the next pricing cycle and to position ourselves for exceptional returns than by focusing our activities in areas that generate superior margins and by maximizing the use of our financial and cash flow strength in times of uncertain and volatile commodity pricing."



The Berkana team is technically driven. We have inherited a significant undeveloped land base from Murphy and Rosetta as well as thousands of kilometres of 2-D and 3-D seismic data, both of which provide a competitive advantage. We believe in the "converging lines of evidence" model in that no one indicator is enough. When the science is in, we approach allocation of our business resources with portfolio theory. We know that one or two wells, even low risk wells, can present surprises. A large drilling program in areas where we have developed superior technical knowledge provides the ability to better forecast results and deliver reliable growth and at the same time protect against the downside. Combine this with true grassroots exploration, and I believe we have a formula for creating substantial shareholder wealth and sustainable growth.

OUTLOOK

Berkana is a solid company that is generating strong and steady free cash flow in a volatile environment. We will remain disciplined. Our entire 15-month capital budget through December 2007, which is set at $34 million, is designed to be financed with internally generated cash flow. We believe we can grow production at an aggressive rate of 20% to 30% per year, without accounting for any contributions from our impact exploration program.

This year, we are positioning ourselves by building on our existing franchise areas at Rimbey, Kaybob and Red Earth. We have drilled ten wells in our winter drilling program with an 80% success rate. Our lower risk growth strategy is being validated. We anticipate drilling a further five to 15 wells by the end of 2007 and resolving the gas processing constraints we have experienced at Kaybob. Furthermore, we are looking to add at least one new franchise area in 2007.

A strong business plan is important, and equally important is execution of that plan. Our people are driven to continue to perform and raise the standards by which we measure success. The environment and the rapid changes we have

undertaken in a short period of time have been challenging for our people, and they have responded superbly. For that effort, they have my deepest appreciation and respect. We are also fortunate to have a Board of Directors that understands the importance of good guidance and responsible corporate governance. Our Board is comprised of a diverse group of skilled entrepreneurs and professionals with extensive knowledge and business experience. Each member brings to Berkana an unwavering level of dedication, wise counsel and support, as well as a pledge to work with the Company's management to fulfill shareholders' expectations through sound, ethical business practices.

In this our Company's inaugural Annual Report, I have attempted to outline the fundamentals of our business plan and how we intend to grow. However, in order to learn more about Berkana and to meet our management and the Board, I cordially invite you to attend our Annual Meeting of Shareholders to be held at 10:00 a.m. on Wednesday, May 23, 2007 at Calgary's Fairmont Palliser Hotel. Berkana is a company that continues to change, grow and develop its strengths each day. These are exciting times for our Company and all of our stakeholders, and I look forward to reporting our progress as we move forward.

On behalf of the Board of Directors.

GLENN D. GRADEEN
President & Chief Executive Officer
March 21, 2007

This year, we are positioning ourselves by building on our existing franchise areas. We have drilled ten wells in our winter drilling program with an 80% success rate. Our lower risk growth strategy is being validated. We anticipate drilling a further five to 15 wells by the end of 2007.

With over 100 identified drilling projects covering over 150,000 net acres of undeveloped land, we have a solid base of opportunities from which to grow our production at 20% to 30% per year.

Operations Review

Berkana has defined three core franchise areas of operation – Rimbey in central Alberta, primarily a natural gas area, Kaybob in west central Alberta, also a gas rich area, and Red Earth in north central Alberta, an oil rich prospect area. All three areas contribute to the Company's stable platform of production from which to grow. Each franchise area also possesses high operating margins and stacked target formations that yield low risk exploitation, development and acquisition opportunities along with high impact exploration, thereby providing the best avenue to deliver superior returns to shareholders.

Property Review: Rimbey

LOCATED NEAR THE TOWN OF RIMBEY in central Alberta, Berkana's Rimbey area possesses a number of operating advantages, including year round access, shallow to medium depth drilling (approximately 2,000 metres or less) and multi-zone stacked pay with ten or more potentially commercial stratigraphic horizons. Impact exploration opportunities may come from either medium depth channel sands (generally identified with 3-D seismic) or from deeper targets in the Paleozoic (typically more than 2,500 metres in depth). Production is predominantly gas (approximately 85%) with associated natural gas liquids and oil (approximately 15%) from primarily lower Cretaceous zones. Berkana has acquired 190 square kilometres of proprietary 3-D seismic data and 712 kilometres of proprietary 2-D seismic that will aid in future development and exploration of the area. Berkana's total seismic database in the Rimbey area is extensive, totaling over 235 square kilometres of 3-D seismic and 1,945 kilometres of 2-D seismic.

Property

At December 31, 2006, the Company's Rimbey property consisted of approximately 27,000 net acres of land, 2,100 boe/d of net productive capacity, 5.5 mmboe of Company interest proved plus probable reserves and 77 wells producing or capable of production. Berkana owns a 30 mmcf/d gas processing plant and five compressor stations in the area and has working interests in a number of oil batteries and a large outside operated gas plant. For Berkana wells and production that are not in close proximity to Company facilities, there is extensive third party owned and operated infrastructure that provides options for future tie-in and processing as new wells are drilled.

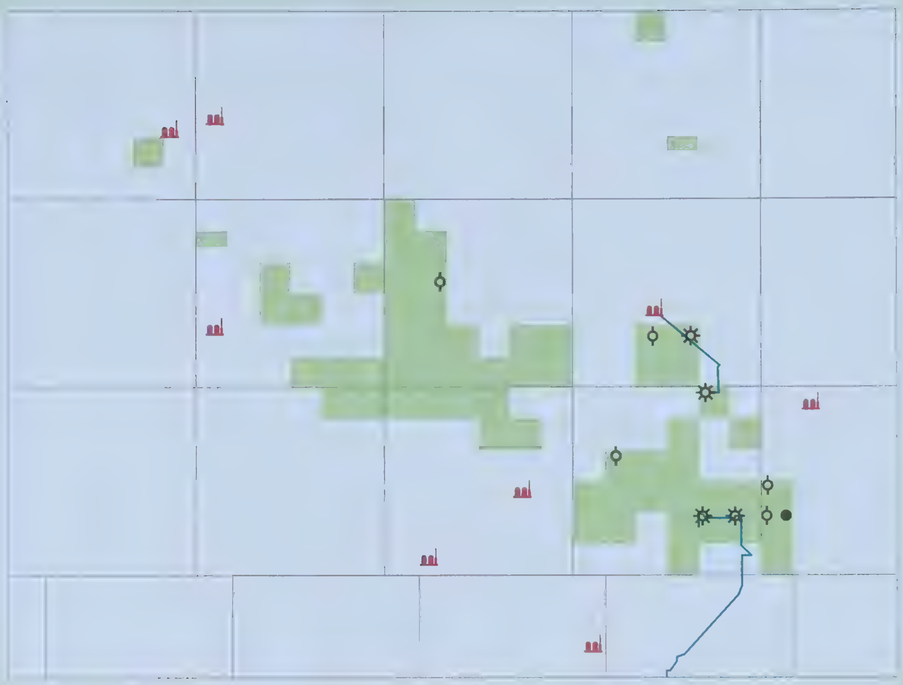
Production

Berkana maintains an average 75% working interest in the area and operates virtually all of its production.

Prospects

Berkana has identified approximately 60 drilling locations on its Rimbey area lands, consisting of primarily Cretaceous and Jurassic drilling opportunities at medium depths of 1,500 to 2,000 metres. Depending on commodity pricing, the Company plans to drill between five and 20 of these wells each year over the next several years, with up to eight wells planned for 2007. A number of other operators in this area have been developing the shallower section (less than 1,000 metres). Berkana has identified prospective trends on its lands that hold promise as a "resource" type play and has identified a further 60 or more shallow locations, primarily in the Edmonton Sands. A pilot program of 15 to 20 wells has been laid out, which may commence as gas prices improve.

Property Review: Kaybob



BERKANA LAND | BERKANA GAS WELL | BERKANA OIL WELL | BERKANA NEW WELL
GAS PLANT / COMPRESSOR | PIPELINE

KAYBOB, WHICH IS LOCATED IN CENTRAL ALBERTA near the town of Fox Creek, is primarily accessible in winter, with only limited access in the summer. The area is characterized by medium depth (up to 2,200 metres) multi-zone opportunities with potential from the Belly River to Basement and has five main potentially productive stratigraphic horizons. Production is predominantly gas (approximately 80%) with the remainder oil and natural gas liquids from primarily stacked pay in the lower Cretaceous. Impact exploration opportunities have been identified in deeper Triassic and Devonian formations of up to 4,000 metres. The Company expects new seismic surveys will assist in improving shallow drilling success rates and help to confirm deeper target opportunities in the area.

Property

At December 31, 2006, the Kaybob property consisted of approximately 30,000 net acres of land, 200 boe/d of net productive capacity and 932 mboe of Company interest proved plus probable reserves. In addition, 13 wells had been drilled in the Kaybob area: five wells are tied-in and producing or capable of production, four wells require either completion and evaluation or tie-in, and four wells require abandonment.

Processing facilities capacity at Kaybob has been a challenge for Berkana, and while the Company has well capacity of over 400 boe/d, it only produced at 50% of capacity throughout 2006. While there are facilities capacity constraints in this area, a portion of the Kaybob area has potential access to at least four third party gas processing facilities.

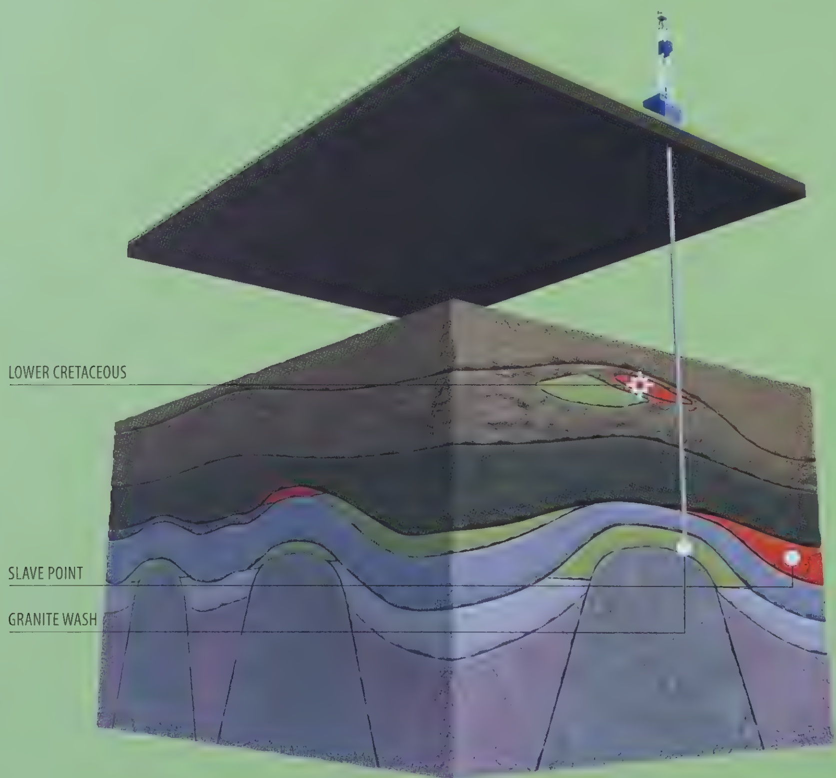
Production

Berkana's average working interest in the area is approximately 75% and the Company operates most of its production, including four gas wells and one oil well.

Prospects

Berkana has identified approximately 40 medium depth drilling locations at Kaybob that consist of primarily lower Cretaceous targets with some Triassic drilling opportunities. Drilling depths for these prospects range from 1,500 to 2,200 metres. Berkana plans to drill at least three wells in the Kaybob area by the end of 2007 and further activity levels will be adjusted based on gas prices. Plans are also being developed to tie-in Berkana's recently drilled wells into a third party gas processing facility.

Property Review - Red Earth



THE RED EARTH AREA, which is located just outside the town of Red Earth in northern Alberta, has good road and infrastructure access. The area is subject to some access restrictions due to an existing Wildlife Protection Plan and certain areas are accessible only during the winter. This is an exciting new light oil prospect area for Berkana that holds potential in the Granite Wash, Slave Point and other formations. The area boasts light 37° to 41° API gravity oil from excellent fine to medium grained sandstone reservoirs that approach 22% porosity and 700 mD permeability and that surround pre-existing Pre-Cambrian highlands.

Property

As at December 31, 2006, Berkana's Red Earth property consisted of petroleum and natural gas rights in 6.75 sections of land with interests ranging from 69% to 100% as well as 2.6 contiguous sections of Granite Wash rights averaging 75% working interest. At year-end 2006, the property had 150 to 200 boe/d of net productive capacity, 432 mboe of Company interest proved plus probable reserves and two producing wells.

Production

The Red Earth area tends to be oil prone with primary targets being the Granite Wash, Slave Point and Keg River. Both Granite Wash and Slave Point production is light sweet crude and is processed through a third party operated battery that is connected into the CalVen pipeline system. Two Granite Wash wells are currently producing. Berkana operates all of its production in this area.

Prospects

Berkana has identified five additional drilling locations in the Red Earth area. These Granite Wash and Slave Point development locations are considered medium depth of approximately 1,500 metres.

MANAGING DIRECTOR, EXPLORATION

MANAGING DIRECTOR, LAND

Berkana's land holdings at December 31, 2006 were 271,579 gross (175,913 net) acres consisting of 223,830 gross (152,151 net) and 47,749 gross (23,762 net) acres of undeveloped and developed land, respectively.

As at December 31, 2006	Net Undeveloped	Net Developed	Total
(acres)			
Rimbey	8,866	17,307	26,173
Kaybob	23,728	2,223	25,951
Red Earth	66,349	366	66,715
Exploration areas	53,208	3,866	57,074
Total	152,151	23,762	175,913

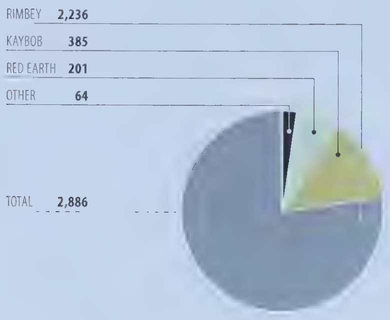
The following table summarizes Berkana's wells as at December 31, 2006:

		Net	
As at December 31, 2006	Gross	Before Payout	After Payout
(# of wells)			
Gas	73	42.4	43.3
Oil	14	9.4	8.7
Drilling	3	0.9	0.9
Standing (1)	11	7.9	7.9
Total	101	60.6	60.8
NCGORR (2)	2	–	–

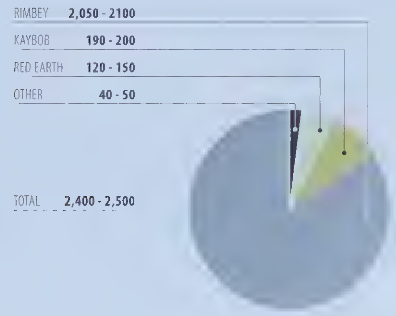
(1) Standing indicates wells that have been cased and awaiting evaluation.

(2) Non-convertible gross overriding royalty wells.

December 2006
Actual Production (boe/d)



December 31, 2006
Estimated Sustainable Production (boe/d)



PRODUCTION

Although actual production in December 2006 was 2,886 boe/d, management estimates Berkana's sustainable production at the end of 2006 to be 2,400 to 2,500 boe/d.

	December 2006 Actual Production	December 31, 2006 Estimated Sustainable Production
(boe/d)		
Rimbey	2,236	2,050 - 2,100
Kaybob	385	190 - 200
Red Earth	201	120 - 150
Other	64	40 - 50
Total	2,886	2,400 - 2,500

As Berkana moves forward, it will continue to report these statistics in order for shareholders to track the growth of each franchise area.

RESERVES

Reserves were evaluated as at December 31, 2006 by Sproule Associates Limited in accordance with the procedures set out in Canadian Securities Association National Instrument NI 51-101 Standards of Disclosure for Oil and Gas Activities. Berkana's reserves evaluation has been filed in accordance with NI 51-101 and is available as part of the Company's Annual Information Form filed on SEDAR.

The following table summarizes Berkana's reserves as at December 31, 2006 using an escalating price forecast:

Commencing 2007 Gas Price (AECO): $7.72/mmbtu and Oil Price (Edmonton Light): $74.10/bbl

As at December 31, 2006	Company Interest		Net Present Values Before Income Taxes Discounted At		
	Working Interest (before royalty deductions)	Net (after royalty deductions)	0%	5%	10%
			($ thousands)	($ thousands)	($ thousands)
Natural Gas (mmcf)					
Total proved	18,460	14,060	101,946	89,498	80,305
Total probable	13,619	10,493	59,243	42,032	31,617
Total proved plus probable	32,079	24,553	161,189	131,530	111,922
Oil & Natural Gas Liquids (mbbls)					
Total proved	1,080	777	17,002	15,804	14,785
Total probable	554	397	5,247	4,478	3,874
Total proved plus probable	1,633	1,174	22,249	20,282	18,659
Total (mboe)					
Proved	4,156	3,121	118,948	105,302	95,090
Probable	2,823	2,145	64,490	46,510	35,491
Total proved plus probable	6,980	5,266	183,438	151,812	130,581

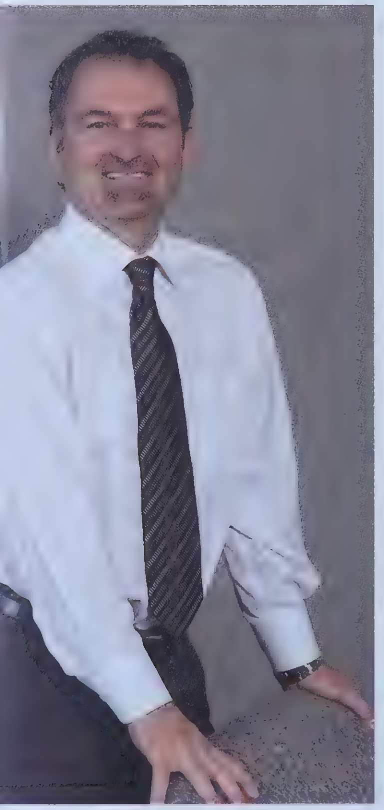
· VICE-PRESIDENT, OPERATIONS

· VICE-PRESIDENT, BUSINESS DEVELOPMENT

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of March 21, 2007 and reviewed and approved by the Board of Directors of Berkana Energy Corp. ("Berkana" or the "Company"). This MD&A is a review of the operational results of the Company with disclosure of oil and gas activities in accordance with Canadian Securities Association National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and a review of financial results of the Company based on Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting currency is the Canadian dollar. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the period December 1 to December 31, 2006.

Basis of Presentation – On December 1, 2006, Berkana commenced operations as an independent Canadian junior oil and gas exploration and production company pursuant to an Acquisition Agreement (the "Acquisition") entered into between Murphy Oil Canada ("Murphy"), Mach Resources Ltd. ("Mach") and Rosetta Exploration Inc. ("Rosetta"). Murphy established and organized Mach pursuant to an Asset Conveyance Agreement to transfer the Rimbey assets immediately before the closing of the Acquisition. The transaction resulted in the transfer of all the issued and outstanding common shares of Mach to Rosetta in exchange for Rosetta issuing to Murphy 269,988,560 common shares. The Acquisition was affected pursuant to the takeover bid provisions of applicable securities legislation and has been accounted for as a reverse takeover. The transaction is described in more detail in note 4 of the audited consolidated financial statements, the Information Circular dated October 26, 2006 and the Acquisitions section of this MD&A. Although historical financial information is not available or required for comparative purposes for Berkana in these circumstances under existing securities law, selected historical information with respect to the Rimbey property is presented herein.



ROBB D. THOMPSON · VICE-PRESIDENT, FINANACE & CHIEF FINANCIAL OFFICER

Non-GAAP Measures – This MD&A contains the term cash flow from operations and operating netback, which are non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP and are, therefore, unlikely to be comparable to similar measures presented by other issuers. Management believes cash flow from operations and operating netback are relevant indicators of the Company's financial performance, ability to fund future capital expenditures and repay debt. Cash flow from operations and operating netback should not be considered an alternative to or more meaningful than cash flow from operating activities, as determined in accordance with GAAP, as an indicator of the Company's performance. In the Net Earnings and Cash Flow from Operations section of this MD&A, a reconciliation has been prepared of cash flow from operations and operating netback to net earnings, the most comparable measure calculated in accordance with GAAP.

Boe Presentation – Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Forward-Looking Statements – Certain information regarding the Company presented in this document, including management's assessment of the Company's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risk associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers and ability to access capital from internal and external resources, and as a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

BUSINESS OF BERKANA

Berkana commenced operations on December 1, 2006 pursuant to the Acquisition with over 2,400 boe/d of production (79% natural gas), approximately 150,000 net undeveloped acres of land, marginal net debt and a planned capital program of over $30 million to the end of 2007. Berkana's capital program is balanced primarily between lower risk exploration and development opportunities and acquisitions, with up to 20% of the capital budget devoted to higher impact exploration. Lower risk growth will come through a combination of the development of Berkana's three core properties: Rimbey, Kaybob and Red Earth. Berkana will continue with Rosetta's leverage approach to high impact exploration by bringing in joint venture drilling partners and using geological studies conducted by Rosetta over the past five years.

ACQUISITIONS

Prior to the closing of the Acquisition and pursuant to the Asset Conveyance Agreement, Murphy transferred the Rimbey assets to Mach in exchange for 100 Mach common shares. As the acquisition of the Rimbey assets by Mach from Murphy is between entities under common control, the net assets were recorded at their carrying values as follows:

($ thousands)	
Consideration	
Net assets received:	
100 common shares of Mach	**41,219**
Purchase Price and Carrying Value	
Net assets received:	
Petroleum and natural gas properties	**54,151**
Cash	**1,263**
Asset retirement obligations	**(6,043)**
Future income taxes	**(8,152)**
	41,219

As part of the Asset Conveyance Agreement, Mach assumed Murphy's commitments for natural gas transmission and processing of production from the Rimbey assets.

As of March 21, 2007, the purchase price allocation is subject to change until such time as the Company receives the final statement of adjustments from Murphy.

Under the Acquisition, Rosetta acquired all of the issued and outstanding shares of Mach from Murphy in exchange for 269,988,560 Rosetta common shares. As such, Murphy owns approximately 80% of Rosetta's issued and outstanding shares. The acquisition was accounted for under the purchase method as a reverse takeover whereby Mach acquired Rosetta. Rosetta subsequently changed its name to Berkana and consolidated all of its issued and outstanding common shares on a five-for-one basis.

The following table summarizes the consideration, purchase price allocation and fair value of the Rosetta net assets acquired by Mach:

($ thousands)	
Consideration	
Net assets received:	
53,997,712 [1] common shares of Rosetta	**29,024**
Transaction costs	**1,898**
Total consideration	**30,922**
Purchase Price and Fair Value	
Net assets received:	
Petroleum and natural gas properties	**36,885**
Cash	**9**
Working capital deficiency	**(1,727)**
Revolving credit facility	**(2,224)**
Asset retirement obligations	**(1,034)**
Future income taxes	**(987)**
	30,922

(1) Shares issued reflect the five-for-one share consolidation.

RIMBEY HISTORICAL SELECTED FINANCIAL AND OPERATIONAL INFORMATION

As described in Basis of Presentation, the Rimbey property represents the assets conveyed to Mach by Murphy, which were then acquired by Berkana in a share exchange.

The Rimbey property is located near the town of Rimbey in central Alberta. The area is characterized by medium depth (approximately 2,000 metres or less), multi-zone opportunities with up to 10 potentially productive stratigraphic horizons. At the time of the Acquisition, the Rimbey property consisted of approximately 27,000 net acres of land, 2,200 boe/d of production, 4.8 mmboe of reserves (proved plus probable), 50 producing wells and associated surface leases, facilities and infrastructure. Production is predominately gas with associated natural gas liquids and oil. Associated facilities and infrastructure include a 30 mmcf/d gathering plant (100% working interest) and a 0.3% working interest in the Rimbey Gas Plant operated by Keyera Facilities Income Fund. Berkana plans to drill between five and 20 gross wells per year in this area over the next several years, of which the majority will be 100% working interest wells.

At the time of the Acquisition, the Rimbey property consisted of approximately 27,000 net acres of land, 2,200 boe/d of production and 50 producing wells.

The following is a schedule of selected financial and production information for the Rimbey property prior to the acquisition by Berkana:

($ thousands, except where otherwise noted)	Eleven Months Ended November 30, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Petroleum and natural gas sales	39,255	57,382	60,551
Royalties	9,929	12,918	14,711
Operating	5,525	4,747	5,672
	23,801	39,717	40,168
Operating netback per boe ($/boe)			
Sales price	47.91	53.15	42.38
Royalties	12.12	11.96	10.30
Operating	6.74	4.40	3.97
Operating netback	29.05	36.79	28.11
Production			
Natural gas (mmcf/d)	11	13	18
Crude oil (bbls/d)	128	174	213
Natural gas liquids (bbls/d)	446	550	686
Total production (boe/d) (6:1)	2,453	2,958	3,905

Production

Average production for the eleven-month period ended November 30, 2006 was 2,453 boe/d compared to full year production rates of 2,958 boe/d in 2005 and 3,905 boe/d in 2004. Production decreased in 2006 and 2005 compared to 2004 due to reduced drilling activity and natural declines in producing wells.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales for the period ended November 30, 2006 were $39.3 million compared to $57.4 million in 2005. The decrease in petroleum and natural gas sales compared to the prior year were a result of lower commodity prices and production volumes and the current period being a partial year.

For 2005, petroleum and natural gas sales decreased to $57.4 million compared to $60.6 million in 2004. The decrease was due to declines in production, which more than offset the 25% increase in sales price during the year.

Royalties

For the eleven months ended November 30, 2006, the average royalty rate as a percentage of petroleum and natural gas sales was 25% compared to 23% in 2005 and 24% in 2004. Berkana pays royalties to the provincial governments, freehold landowners and overriding royalty owners. Fluctuations in the average royalty rate were due to the type of royalties paid and the sales price received being different from the reference price used by the provincial government during the respective periods.

Operating Expenses

Operating expenses were $5.5 million or $6.74/boe in the eleven-month period ended November 30, 2006 compared to $4.7 million or $4.40/boe in 2005. Increased costs

were incurred in 2006 for workovers, gas processing and handling. The increase in operating expenses on a boe basis was due to lower production volumes in 2006 compared to 2005.

For 2005, operating expenses were $4.7 million or $4.40/boe compared to $5.7 million or $3.97/boe in 2004. The decrease was primarily due to lower freehold mineral tax being paid in 2005 on producing wells that had significant declines in production in 2005 compared to 2004.

BERKANA OPERATIONAL RESULTS FOR THE MONTH ENDED DECEMBER 31, 2006

Berkana continues to focus on drilling and completing wells in the areas of Rimbey, Kaybob, Red Earth and Kakwa, Alberta.

Rimbey

Subsequent to period end, the Company completed and tied-in a standing natural gas well that Murphy had previously drilled.

For the one-month period ended December 31, 2006, Rimbey area production averaged 2,236 boe/d consisting of 10 mmcf/d of natural gas, 119 bbls/d of crude oil and 374 bbls/d of natural gas liquids. As of December 31, 2006, the Company had 77 wells producing or capable or production in the Rimbey area.

Kaybob

In the Kaybob area, the Company drilled one natural gas well in December that was completed subsequent to period end. The Company also completed a natural gas well previously drilled by Rosetta prior to the Acquisition. Both wells are currently awaiting tie-in. In addition, on December 31, 2006 the Company was in the process of drilling one additional natural gas well, which was completed in January 2007.

Due to facilities constraints, Berkana continues to experience operational challenges in maintaining production at full well capacity from two of its Kaybob area gas wells that are processed through a third party operator's facilities. These wells were producing for approximately 6 of the 12 months in 2006. During most of December, Berkana was able to flow an average of 294 boe/d from these wells, however in January production was once again shut-in. The Company's wells are shut-in by the third party operator when the processing facility is at full capacity based on production from other suppliers. In 2007, management expects to be able to produce from these wells for only approximately half of the time until August, when a new processing facility is planned to come on-stream. The Company is currently evaluating different alternatives to mitigate production restrictions caused by facility constraints, including contracting for firm processing capacity.

For the one-month period ended December 31, 2006, Kaybob area production averaged 385 boe/d consisting of 2 mmcf/d of natural gas, 19 bbls/d of crude oil and 55 bbls/d of natural gas liquids. As of December 31, 2006, the Company had 5 wells producing or capable or production in the Kaybob area.

Red Earth

The Company completed two oil wells in December that were previously drilled by Rosetta prior to the Acquisition. Subsequent to period end, the Company tied-in both wells, however delays in receiving regulatory approvals have prevented production from one of the wells.

For the one-month period ended December 31, 2006, Red Earth area production averaged 201 bbls/d of crude oil. As of December 31, 2006, the Company had 3 producing wells in the Red Earth area.

Kakwa

Kakwa is a Swan Hills test well being drilled in a winter operations area west of the Kaybob area. During the 2005/2006 winter drilling season, the well was drilled to 3,000 metres and intermediate casing was set prior to break-up. Drilling operations re-commenced in December 2006 and total depth of 4,300 metres was reached in early 2007. The well was acidized during the first week of March 2007 and testing operations were not completed due to wildlife constraints, which required all of the equipment be removed from the lease prior to March 15, 2007. As a result, the well has been suspended and further testing and evaluation is required to determine if this is a commercial discovery. Berkana has a 28% working interest in this well.

HIGHLIGHTS AND SELECTED FINANCIAL INFORMATIO

($ thousands, except where otherwise noted)	Month Ended December 31, 2006
Production	
Natural gas (mmcf/d)	13
Crude oil (bbls/d)	339
Natural gas liquids (bbls/d)	431
Total production (boe/d) (6:1)	2,886
Average sales price	
Natural gas ($/mcf)	8.68
Crude oil ($/bbl)	68.34
Natural gas liquids ($/bbl)	54.00
Total ($/boe)	54.26
Petroleum and natural gas revenue	4,854
Net earnings	472
Per share – basic and diluted	0.01
Capital expenditures	4,338
Total assets	101,751
Working capital deficiency	(3,734)
Revolving credit facility	(3,100)

For the one-month period ended December 31, 2006, Berkana's production averaged 2,886 boe/d consisting of 13 mmcf/d of natural gas, 339 bbls/d of crude oil and 431 bbls/d of natural gas liquids.

Petroleum and natural gas revenues were $4.9 million or $54.26/boe for the one-month period.

During the one-month period, Berkana generated net earnings of $0.5 million or $0.01 per share basic and diluted.

The Company invested $4.3 million for capital expenditures during the one-month period, the majority of which was spent on drilling and completions.

Proved reserves at December 31, 2006 were 4.2 mmboe consisting of 3.1 mmboe of natural gas and 1.1 mmbbls of crude oil and natural gas liquids.

Total proved plus probable reserves at December 31, 2006 were 7.0 mmboe consisting of 5.3 mmboe of natural gas and 1.6 mmbbls of crude oil and natural gas liquids.

Berkana's land holdings at December 31, 2006 were 271,579 gross (175,913 net) acres consisting of 223,830 gross (152,151 net) and 47,749 gross (23,762 net) acres of undeveloped and developed land, respectively.

($/boe)	Month Ended December 31, 2006
Total	
Sales price	**54.26**
Royalties	**11.41**
Transportation	**0.94**
Operating expenses	**11.26**
Operating netback	**30.65**

	Month Ended December 31, 2006
Production	
Natural gas (mmcf/d)	**13**
Crude oil (bbls/d)	**339**
Natural gas liquids (bbls/d)	**431**
Total production (boe/d) (6:1)	**2,886**

	Rimbey	Kaybob	Red Earth	Other
Production by Major Area				
Natural gas (mcf/d)	**10,459**	**1,867**	–	**372**
Crude oil (bbls/d)	**119**	**19**	**201**	–
Natural gas liquids (bbls/d)	**374**	**55**	–	**2**
Total production (boe/d) (6:1)	**2,236**	**385**	**201**	**64**

The reader is cautioned that production from the Kaybob area for the month of December is not indicative of what management expects production to average in 2007. In 2006, two gas wells in the Kaybob area were on-stream for only approximately 50% of the year, whereas in December, these wells were on-stream for the majority of the month.

For the one-month period ended December 31, 2006, Berkana's production averaged 2,886 boe/d consisting of 13 mmcf/d of natural gas, 339 bbls/d of crude oil and

431 bbls/d of natural gas liquids. The majority of the Company's production is derived from three properties: gas, oil and natural gas liquids production from the Rimbey and Kaybob areas and oil production from the Red Earth area.

PETROLEUM AND NATURAL GAS SALES

($ thousands, except where otherwise noted)	Month Ended December 31, 2006
Petroleum and Natural Gas Sales	
Natural gas	**3,413**
Crude oil	**717**
Natural gas liquids	**724**
Total	**4,854**
Average Sales Price	
Crude oil ($/bbl)	**68.34**
Natural gas liquids ($/bbl)	**54.00**
Average liquids price ($/bbl)	**60.29**
Natural gas ($/mcf)	**8.68**
Total ($/boe)	**54.26**
Benchmark Pricing	
Edmonton par price ($/bbl)	**68.62**
AECO-C spot ($/mmbtu)	**7.96**

Petroleum and natural gas sales for the one-month period ended December 31, 2006 were $4.9 million, consisting of $3.4 million of natural gas sales, $0.7 million of crude oil sales and $0.7 million of natural gas liquid sales.

During the month of December, Berkana realized natural gas prices of $8.68/mcf compared to the AECO daily index average of $7.96/mmbtu. Berkana realizes a higher price than AECO due to the higher energy content of Berkana's natural gas production.

Berkana's realized price for its crude oil production was $68.34/bbl compared to the Edmonton par daily index average of $68.62/bbl.

All the Company's production is currently sold on the spot market.

[illegible]

($ thousands, except where otherwise noted)	Month Ended December 31, 2006
Royalties	
Crown	**716**
Freehold and overriding	**364**
Alberta Royalty Tax Credit	**(60)**
Total	**1,020**
Royalties per boe	
Natural gas ($/mcf)	**11.68**
Crude oil ($/bbl)	**13.66**
Natural gas liquids ($/bbl)	**6.82**
Total ($/boe)	**11.41**
Average royalty rate (%)	**21.0**

Berkana pays royalties to the provincial governments, freehold landowners and overriding royalty owners. For the one-month period ended December 31, 2006. natural gas and liquids royalties were $1.0 million or 21.0% of total revenues. Royalties are calculated and paid based on petroleum and natural gas sales net of transportation.

OPERATING EXPENSES

Operating expenses were $1.0 million or $11.26/boe for the one-month period ended December 31, 2006. The majority of the Company's operating expenses are incurred for compression, processing and gathering of natural gas production, repairs and maintenance, and freehold mineral taxes. Management does not believe that operating expenses for the one-month period are indicative of a full year of operations and anticipates 2007 normalized operating expenses to be in the $6.50/boe to $8.50/boe range.

TRANSPORTATION EXPENSES

Transportation expenses were $0.1 million or $0.94/boe for the one-month period ended December 31, 2006. The Company incurs transportation charges primarily for natural gas transmission of Rimbey production and oil hauling at Red Earth.

GENERAL AND ADMINISTRATIVE EXPENSES

($ thousands, except where otherwise noted)	Month Ended December 31, 2006
Gross general and administrative expense	**712**
Overhead recoveries	**(54)**
Net general and administrative expense	**658**
General and administrative ($/boe)	**7.35**

For the one-month period ended December 31, 2006, general and administrative ("G&A") expenses were $0.7 million or $7.35/boe. The majority of the Company's gross G&A expenses are incurred for salaries and benefits and rent for office premises. The Company recovers a portion of its gross G&A costs from its partners based on its capital spending during the period. The Company does not capitalize G&A expenses. Management expects to incur additional G&A costs in the first half of 2007 for the hiring of additional personnel attributed to increased operations and drilling activities. Management forecasts that G&A expenses per boe will decrease in the second half of the year if the Company is able to achieve its production targets.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion, depreciation and accretion ("DD&A") was $1.6 million or $17.48/boe for the one-month period ended December 31, 2006. In determining the Company's depletion and depreciation, salvage values of $8.9 million, undeveloped land costs of $7.5 million and $6.5 million of costs on unevaluated wells were excluded from the

costs subject to depletion. On December 1, 2006, Berkana's depletable asset base was established based on the combination of the carrying value of the Murphy assets transferred to Mach under the Asset Conveyance Agreement and the fair value of the Rosetta assets acquired by Mach in accordance with the Acquisition and the application of reverse takeover accounting.

[illegible]

Berkana's current and future income taxes are dependent on factors such as production, commodity prices and tax classification of drilled exploration and development wells. The Company had future income taxes for the one-month period of $0.3 million and an effective tax rate of 38.7%.

At December 31, 2006, the Company had $52.8 million in tax pools and $7.6 million in non-capital losses that are available for future deduction against taxable income.

($ thousands)	December 31, 2006
Canadian exploration expense	**15,590**
Canadian oil and gas property expense	**1,451**
Canadian development expense	**8,980**
Undepreciated capital costs	**24,015**
Share issue costs	**2,628**
Other	**99**
Total	**52,763**

Non-capital losses expire as follows:

($ thousands)	
2007	1,212
2008	1,392
2009	1,234
2010	–
Thereafter	3,771
	7,609

NET EARNINGS AND CASH FLOW FROM OPERATIONS

($ thousands)	Month Ended December 31, 2006
Revenue	
Petroleum and natural gas sales	**4,854**
Royalties, net of Alberta Royalty Tax Credit	**(1,020)**
Interest and other income	**260**
	4,094
Operating expenses	**(1,008)**
Transportation expenses	**(84)**
Operating netback	**3,002**
General and administrative	**(658)**
Interest	**(11)**
Cash flow from operations	**2,333**
Depletion, depreciation and accretion	**(1,563)**
Net earnings before future income taxes	**770**
Future income taxes	**(298)**
Net earnings	**472**

For the one-month period ended December 31, 2006, net earnings were $0.5 million or $0.01 per basic and diluted share. Cash flow from operations was $2.3 million or $0.03 per basic and diluted share.

CAPITAL EXPENDITURES

($ thousands)	Month Ended December 31, 2006
Land	**22**
Drilling and completions	**3,281**
Tangible equipment	**963**
Other	**72**
Net capital expenditures	**4,338**

During the one-month period, the Company invested $4.3 million for capital expenditures, the majority of which was expended to drill 2 gross (1.7 net) wells and complete 3 gross (3.0 net) wells.

Berkana assumed a partner's share in associated properties under the terms of a joint venture agreement in return for forgiving a $2.1 million long-term receivable. This transaction was recorded to property, plant and equipment during the one-month period, however it was deemed a non-cash transfer and is not reflected in the capital expenditures table above.

For the year ended December 31, 2007, the Company has budgeted capital of $24.4 million, which is planned to be allocated 80% to lower risk exploration and development drilling and 20% to high potential impact exploration projects.

WELL COUNT

As at December 31, 2006	Gross	Net: Before Payout	Net: After Payout
(# of wells)			
Gas	**73**	**42.4**	**43.3**
Oil	**14**	**9.4**	**8.7**
Drilling	**3**	**0.9**	**0.9**
Standing [1]	**11**	**7.9**	**7.9**
Total	**101**	**60.6**	**60.8**
NCGORR [2]	**2**	–	–

(1) Standing indicates wells that have been cased and awaiting evaluation.
(2) Non-convertible gross overriding royalty wells.

LAND HOLDINGS

As at December 31, 2006	Net Undeveloped	Net Developed	Total
(acres)			
Rimbey	**8,866**	**17,307**	**26,173**
Kaybob	**23,728**	**2,223**	**25,951**
Red Earth	**66,349**	**366**	**66,715**
Exploration areas	**53,208**	**3,866**	**57,074**
Total	**152,151**	**23,762**	**175,913**

LIQUIDITY AND CAPITAL RESOURCES

($ thousands)	December 31, 2006
Working capital deficiency	**3,734**
Revolving credit facility	**3,100**

As at December 31, 2006, Berkana had a working capital deficiency of $3.7 million and $3.1 million drawn against the $25 million revolving credit facility (the "credit facility") that bears interest at 6.1%. This working capital deficiency will be funded by drawing against the credit facility. The credit facility provides that advances may be made by prime-based loans, guaranteed notes and letters of credit and guarantees. Prime-based loans bear interest at the bank's prime rate plus a facility margin, while guaranteed notes bear interest at the bank's base rate plus a facility margin. The facility margin charged by the bank is dependent on the Company's net debt to cash flow ratio at the time of determination. The letters of credit and guarantees bear interest at 2% per annum. The credit facility is secured by a fixed and floating charge on the assets of the Company. The credit facility has a covenant that requires the Company to maintain its working capital ratio at 1:1 or greater while the credit facility is outstanding. The working capital ratio is defined as current assets plus the unutilized portion of the credit facility divided by current liabilities less the balance drawn against the credit facility. The borrowing base of the credit facility is subject to an annual review by the lender. As at December 31, 2006, the Company was in compliance with all covenants required in the agreement.

The Company generally relies on cash flow from operations and credit facility availability to fund its capital requirements and to provide liquidity. Cash is primarily used, and will continue to be used, to fund acquisitions, exploration and development

of petroleum natural gas properties, expenses for continued operations, G&A costs and/or repayment of principal and interest on outstanding credit facilities.

The Company's cash flow from operations is directly related to underlying commodity prices and production volumes. A significant decrease in commodity prices could materially impact the Company's future cash flow from operations and liquidity. In addition, a substantial decrease in commodity prices could impact the Company's borrowing base under the credit facility, therefore reducing the credit facility available, and in some instances, require a portion of the credit facility to be repaid. Berkana has not entered into any risk management contacts to mitigate its commodity price risk, however management is currently considering various options. The Company's future liquidity is also dependent on its ability to increase reserves and production through successful drilling activity and acquisitions.

Management feels that the Company currently has sufficient liquidity and capital resources available to fund continued operations and future capital expenditures. In the long-term, the Company may consider issuing new equity or debt, on favourable terms, to fund the continued growth of the Company through acquisitions, exploration and development of petroleum and natural gas properties. The Company's future liquidity is dependent on cash flow from operations, the credit facility and its ability to access new equity or debt at favourable terms.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company is committed to future payments for natural gas transmission and processing of production from the Rimbey assets and rent on office premises. Subsequent to period end, the Company modified the terms of its office premise lease. The new term of the lease is from February 1, 2007 to January 31, 2012. The Company is committed to paying a total of $2.4 million during the term of the lease. Payments required under these commitments for each of the next five years are as follows:

($ thousands)	2007	2008	2009	2010	2011	Thereafter
Office rent [1]	264	413	557	557	557	46
Demand contracts	362	248	87	75	25	–
	626	661	644	632	582	46

(1) Reflects the Company's office rent commitment under the original lease agreement for the period January 1, 2007 to January 31, 2007 and the modified lease agreement for the period February 1, 2007 to January 31, 2012.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SHARE CAPITAL

As at December 31, 2006, the Company had 67,497,140 common shares and no stock options issued and outstanding. Between January 1, 2007 and March 21, 2007, the Company issued the following stock options to officers, directors, employees and consultants:

	Number	Exercise Price
	(# of options)	($)
January	4,194,750	1.60
February	114,000	1.80
March	181,000	1.68
Total	4,489,750	1.61

OUTLOOK

Berkana has commenced operations with significant exploration and development drilling opportunities, a large undeveloped land base and marginal debt. In 2007, Berkana will continue to explore and develop its major areas at Rimbey, Kaybob and Red Earth and may add at least one additional new area. The Company has budgeted capital of $24.4 million, which is planned to be allocated 80% to lower risk exploration and development drilling and 20% to high potential impact exploration projects. The Company anticipates drilling 9 to 13 gross (6.3 to 9.1 net) wells and securing reliable processing capacity in the Kaybob area. The Company is targeting average production for 2007 of between 2,600 to 2,900 boe/d and exiting the year between 2,700 to 3,000 boe/d.

> *The Company has budgeted capital of $24.4 million and anticipates drilling 9 to 13 gross (6.3 to 9.1 net) wells. It is targeting average production for 2007 of between 2,600 to 2,900 boe/d and exiting the year between 2,700 to 3,000 boe/d.*

FINANCIAL INSTRUMENTS

Fair Value of Financial Assets and Liabilities

Financial instruments of the Company consist primarily of bank overdraft, accounts receivable, note receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the credit facility. As at December 31, 2006, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

Credit Risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business under normal industry sale and payment terms and are subject to normal credit risks. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

06 SENSITIVITIES

The following sensitivity analysis is provided to demonstrate the impact of changes in commodity prices on 2006 petroleum and natural gas sales and is based on the December balances disclosed in this MD&A and the audited consolidated financial statements for the one-month period ended December 31, 2006:

($ thousands)	Petroleum and Natural Gas Sales (1)
Change in average sales price for natural gas by $1.00/mcf	**393**
Change in the average sales price for crude oil by $1.00/bbl	**11**
Change in natural gas production by 1 mmcf/d (2)	**269**
Change in crude oil production by 100 bbls/d (2)	**212**

(1) Reflects the change in petroleum and natural gas sales for the one-month period. Balances have not been annualized.
(2) Reflects the change in production multiplied by the Company's sales prices for the one-month period ended December 31, 2006.

CRITICAL ACCOUNTING ESTIMATES

To prepare the financial statements in accordance with GAAP, management is required to make judgements and estimates that could influence the financial results of the Company. Management continually reviews its estimates, but changes in facts or circumstances may result in revised estimates and actual results may differ from these estimates. A summary of the Company's critical accounting polices has been provided in note 1 of the consolidated financial statements. The Company's critical accounting estimates are discussed below.

Reverse Takeover / Purchase Price Allocation

On December 1, 2006, Rosetta acquired all of the issued and outstanding shares of Mach from Murphy in exchange for 269,988,560 Rosetta common shares. The Company accounted for this acquisition as a reverse takeover whereby Mach is deemed to have acquired Rosetta. Under this method, the Company was required to record on the consolidated balance sheet the estimated fair values of the Rosetta assets and liabilities at the acquisition date. The excess of the fair value of the tangible net assets over the purchase price was recorded as negative goodwill and allocated to the tangible net assets acquired.

The Company made various assumptions in determining the fair value of the Rosetta assets and liabilities. The most significant of those estimates relates to the estimation of the fair value of the oil and gas properties. To determine the fair value of the properties, the Company estimated existing and future oil and gas reserves and the future price of oil and gas. Reserve estimates were based on work done by the Company's internal engineers and independent reserve engineers. The estimates the Company uses to determine reserves are described below under Petroleum and Natural Gas Reserves. The Company used discounted future net revenues, which incorporated before-tax discount rates, to estimate the fair value of the proved and probable reserve quantities acquired.

Petroleum and Natural Gas Reserves

The Company uses the successful efforts method of accounting for its oil and gas activities, which are dependent on estimated reserves that management believes are recoverable from its oil and gas properties. The process for estimating reserves is complex and subjective. The Company's determination of reserves is based on a combination of:

- geological, geophysical and engineering estimates;
- future production rates;
- future commodity prices; and
- future development and operating costs.

Management believes these factors to be reasonable based on the information that is available as of the time of the estimate of reserves and is subsequently reviewed by its independent engineers. Estimates of these factors can significantly change over time as additional data relating to development, production, pricing and costs is received for its oil and gas properties.

All of the Company's reserves are evaluated and reported on by independent engineers in accordance with NI 51-101. In addition, the Company has established a Reserves Committee to assist the Board of Directors and the Audit Committee to review its oil and gas reserves and other related disclosures. The Reserves Committee is comprised of three members of the Board of Directors, all of whom are not members of management.

The Company's estimate of reserves impacts the accounting for depletion, impairment and the expensing of exploratory wells not capable of economically producing reserves. In addition, Berkana's borrowing base for the credit facility is determined based on estimates of proved reserves.

Successful Efforts Impairment

The Company evaluates its oil and gas properties for impairment if a significant event or change occurs. This can include a significant decrease in oil and gas prices, revisions to proved reserves, changes in operating expenses or changes in its operating environment.

The Company's oil and gas properties are evaluated for impairment on a field basis. Other assets are evaluated for impairment on a specific asset basis or in groups of similar assets as applicable. The undiscounted future net cash flows of the property are compared to the carrying value. The property is written down to its fair value if the carrying value is greater than the calculated fair value. The Company calculates the fair value based on the discounted cash flow approach.

The calculation of undiscounted future net cash flows by management requires significant assumptions to be made for future prices and reserves. The Company's

estimates for future prices are based on benchmark prices compiled by independent engineers, adjusted to reflect risk management contracts, transportation expense or quality differentials.

Management believes the assessment of impairment of oil and gas properties is a critical accounting estimate primarily due to the complexity of the assumptions used in the calculation.

The Company's oil and gas properties were evaluated for impairment as at December 31, 2006, and based on its estimates, no impairments were required. In the existence of an impairment charge, the Company would record an increase in depreciation and depletion expense for the period.

[illegible]

The Company has a legal obligation associated with the retirement of present and former operating sites. Management is required to make significant estimates and assumptions to calculate the estimated fair value of future retirement of its tangible assets. This includes making estimates of future activities and environmental rules and regulations that could potentially impact the Company's future retirement obligation.

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time and is recognized as accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production method based on estimated proved developed reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligations and the recorded liability is recognized as a gain or loss in the Company's statement of operations in the period in which the settlement occurs.

[illegible]

The calculation of the Company's income tax provision and future income tax liability is complex and requires making certain judgements and constant review of laws and regulations in multiple jurisdictions. Changes in facts and circumstances as a result of income tax audits, reassessments and changes in existing legislation could result in a corresponding increase or decrease in the Company's provision for income taxes.

SECURITIES ADMINISTRATORS PRONOUNCEMENTS

Internal Control Reporting

In March 2006, the Canadian Securities Administrators decided not to proceed with Multilateral Instrument 52-111 *Reporting on Internal Control over Financial Reporting* and proposed to expand Multilateral Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings* ("MI 52-109"). The major changes resulting from this are the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be required to certify in their annual certificates that they have evaluated the design effectiveness of internal control over financial reporting ("ICOFR") at the end of the financial year and have disclosed in the MD&A their conclusions on the design effectiveness of ICOFR. However, there will be no requirement to obtain from its auditors an internal control audit opinion concerning management's assessment of the operating effectiveness of ICOFR. Berkana will continue to evaluate the effectiveness of its ICOFR as the proposed amendment is expected to apply for the year ended December 31, 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants ("CICA") has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods.

Comprehensive Income/Financial Instruments/Hedges

In an effort to harmonize Canadian GAAP with U.S. GAAP, the Canadian Accounting Standards Board ("AcSB") has issued sections:

1530, *Comprehensive Income*

3855, *Financial Instruments – Recognition and Measurement*

3865, *Hedges*

The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement, and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional contributed surplus in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. The Company is currently investigating the impact of these new standards.

Financial Instruments – Disclosure and Presentation

In December 2006, the AcSB issued two new sections in relation to financial instruments:

3862. *Financial Instruments – Disclosures*

3863. *Financial Instruments – Presentation*

Both sections will become effective for annual and interim periods beginning on or after October 1, 2007 and will require additional disclosure of financial instruments.

Capital Disclosures

In December 2006, the AcSB issued Section 1535 *Capital Disclosures* requiring disclosure of information about an entity's capital and the objectives, policies and processes for managing capital. The standard is effective for annual periods beginning on or after October 1, 2007.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the CEO and CFO, as appropriate to permit timely decisions regarding public disclosure.

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as defined in MI 52-109, are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

During the process of management's review and evaluation of the design of the Company's ICOFR, it was determined that a certain weakness existed in ICOFR. As indicative of many small companies, the lack of segregation of duties was identified as an area where weakness exists. Some of the risks associated with lack of segregation of duties are misappropriation of assets, misstated financial statements and errors and/or irregularities in financial information. The existence of this weakness is compensated for by senior management monitoring the areas in which it exists and through the performance of audits and quarterly reviews of financial statements by the Company's external auditors. The Company is taking steps to augment and improve the design of procedures and controls impacting this area of weakness over ICOFR. It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all business, while others are specific to a sector. The

following reviews the general and specific risks to which the Company is exposed. The Company's management realizes that these risks cannot be eliminated, however they are committed to monitoring and mitigating these risks.

Risk Management

In order to manage the Company's exposure to commodity price, interest rate and foreign exchange risk, the Company developed a risk management policy. Under this policy, it may enter into agreements, including fixed price, forward price, physical purchases and sales, futures, currency swaps, financial swaps, option collars and put options. The Company's Board of Directors evaluates and approves the need to enter into such arrangements. At this time, the Company has chosen not to enter into such risk management arrangements.

Control by Majority Shareholder

Since December 1, 2006, the Company's controlling shareholder, Murphy, has held 80% of the issued and outstanding common shares of Berkana and has the right to nominate a number of directors to the Berkana Board of Directors. As a result, Murphy will have significant influence over the Company's decisions.

Environment and Safety

The oil and natural gas industry is subject to environmental regulations pursuant to municipal, provincial and federal legislation in Canada and similar legislation in other countries. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of the applicable regulatory authorities. A breach of such legislation may result in the imposition of fines or penalties, some of which could be material. The Company is committed to meeting and exceeding environmental and safety standards.

The Government of Canada has signed and ratified the Kyoto protocol, which establishes legally binding targets to reduce nationwide emissions of greenhouse gases. Berkana's oil and gas facilities and other operational activities produce a small amount of greenhouse gases that might be impacted by this legislation. The impact of this legislation could require reductions in oil and gas production related emissions, which

could result in, among other things, increased capital and operating expenditures for oil and gas producers, including Berkana. The direct or indirect costs of this legislation or other future regulatory initiatives may adversely affect the Company's business.

Berkana's Board of Directors and management team monitor, develop and implement policies and procedures to mitigate the environmental and safety risks of the Company.

The continued long-term success of Berkana is dependent on its ability to find, acquire, develop and produce oil and natural gas reserves. The Company will need to continually add new reserves to offset the natural decline and production from existing reserves. The Company's ability to increase reserves is dependent on its ability to explore and develop its existing properties as well as its ability to select and acquire new properties or projects. There is no assurance that the Company will continue to be able to explore, develop or acquire the reserves necessary to offset the natural decline and production from its existing reserves.

To mitigate this risk, Berkana has assembled a team of experienced technical professionals who have expertise operating and exploring in the core areas of the Company. In addition, the Company targets prospects that have multi-zone potential and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves.

There is significant uncertainty inherent in the estimating of economically recoverable oil and gas reserves (including natural gas liquids) and the future net cash flows to be derived from these reserves. The Company's reserves are estimated by the independent engineering firm Sproule Associates Limited. Estimates are made based on a number of variable factors and assumptions, including future oil and gas prices, projected production rates, timing and amount of capital expenditures, future operating expenses and royalties and impact of regulation by government agencies. The Company's actual production and future cash flows may vary from its estimates, and such variations could be material.

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas release and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Berkana is not fully insured against all of these risks, nor are all such risks insurable. Berkana maintains liability insurance in an amount that it considers consistent with industry practice. However, due to the nature of these risks it is possible that liabilities could exceed policy limits, which could cause the Company to incur significant costs that could have a materially adverse effect on its financial condition. Oil and natural gas operations are also subject to additional risks, including premature decline of reservoirs and the invasion of water into producing formations.

Berkana's future oil and gas exploration and development activities are dependent on the Company's ability to engage drilling and related equipment in the particular areas where the activities will be conducted. Demand for limited equipment or access restrictions may affect the Company's ability to complete future exploration and development activities. The Company is exposed to additional risks associated with oil and gas properties where Berkana is not the operator, and is dependent on the timing and success of such operators as the Company will largely be unable to direct or control the activities. The Company attempts to mitigate these risks by developing strong relationships with existing and potential partners, suppliers and contractors.

Commodity Prices and Marketing

Berkana is exposed to fluctuations in prices for natural gas, crude oil and natural gas liquids, as all of the Company's production is currently sold at spot prices that are subject to volatile trading activity. Commodity prices fluctuate in response to, among other things, domestic and foreign supply and demand, import and export balances, government regulations, weather, and fluctuations in the availability and price of other replacement energy sources. A significant drop in commodity prices could materially impact the Company's petroleum and natural gas sales, the volume of production it could produce economically, require downward adjustments to proved reserves and could materially impact the Company's financial condition. In addition, a substantial decrease in commodity prices could impact the Company's borrowing base under the credit facility, therefore reducing the credit facility available, and in some instances, require a portion of the credit facility to be repaid.

Berkana's ability to market its natural gas may depend on its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and facilities as well as extensive government and regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Liquidity And Capital Resources

Berkana will continue to require significant capital expenditures for the exploration, development, acquisition and production of oil and gas reserves in the future. The Company's capital program is currently funded by cash flow from operations and credit facility utilization. From time to time, the Company will consider raising additional debt or equity, on favourable terms, to finance its exploration, development, acquisition and production of oil and gas reserves. Cash flow from operations and credit facility utilization may not be sufficient to fund the necessary capital requirements to undertake or complete future drilling programs, and if so, there can be no assurance that additional debt or equity financing will be available to meet the requirements on acceptable terms. Neither its articles nor by-laws limit the amount of indebtedness that the Company may incur. The level of indebtedness of the Company, from time to time, could impair its ability to obtain additional financing in the future and to take advantage of future business opportunities.

Technology

The Company relies on information technology to manage its day-to-day operations and perform reporting obligations, including the preparation of financial statements, reporting to joint venture partners and various governments in relation to payment of royalties and taxes.

Regulatory

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Berkana's operations may require licenses and permits from various governmental authorities. There can be no assurance that Berkana will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

Title to Properties

Although title reviews may be conducted prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Berkana, which could result in a reduction of the revenue received by the Company.

Conflicts of Interest

Certain of the directors and officers of Berkana are also directors and officers of other oil and gas companies involved in oil and gas exploration and development, and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions.

Reliance on Key Personnel

Berkana is largely dependent on the performance of its management and key employees. The Company does not carry any key person insurance in effect for management or key employees, and therefore, there is a risk that the loss of services of such key personnel could have a material adverse effect on the Company. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company can continue to attract and retain all personnel necessary to ensure the continued exploration, development and operation of its business. Investors must rely on the ability, expertise, judgement, discretion, integrity and good faith of management.

ADDITIONAL INFORMATION

Additional information relating to Berkana is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Berkana Energy Corp., Suite 2100, 801 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3W2 or by e-mail at info@berkanaenergy.com. Information is also accessible on the Company's website at www.berkanaenergy.com.

2006 Consolidated [illegible]

Management's Report

TO THE SHAREHOLDERS OF BERKANA ENERGY CORP.

The accompanying consolidated financial statements of Berkana Energy Corp. and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and within the framework of the Company's significant accounting policies as described in the notes to the consolidated financial statements. The consolidated financial statements reflect management's best estimates and judgements based on currently available information within reasonable limits of materiality.

Financial information presented throughout the Annual Report has been prepared and reviewed by management to ensure it is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements. Management maintains appropriate systems of internal control to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of consolidated financial statements.

Independent auditors are appointed by the shareholders of the Company to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included a review of the system of internal controls and included such tests and other procedures, as they considered necessary, to provide reasonable assurance that the consolidated financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend the consolidated financial statements be presented to the Board of Directors for approval.

The consolidated financial statements, including the notes to the consolidated financial statements, have been approved by the Board of Directors on the recommendation of the Audit Committee.

Glenn D. Gradeen
President &
Chief Executive Officer

Robb D. Thompson
Vice-President, Finance &
Chief Financial Officer

March 21, 2007
Calgary, Alberta

Auditors' Report

[illegible]

We have audited the consolidated balance sheet of Berkana Energy Corp. as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the one-month period ended December 31, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the one-month period then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

March 21, 2007
Calgary, Canada

Consolidated Balance Sheet

As at December 31

($ thousands)	2006
ASSETS *(note 6)*	
Current	
Accounts receivable	**4,573**
Note receivable *(note 3)*	**534**
Prepaid expenses and deposits	**177**
	5,284
Property, plant and equipment *(note 5)*	**96,467**
	101,751
LIABILITIES	
Current	
Bank overdraft	**164**
Accounts payable and accrued liabilities	**8,854**
Revolving credit facility *(note 6)*	**3,100**
	12,118
Asset retirement obligations *(note 7)*	**7,585**
Future income taxes *(note 9)*	**9,435**
	29,138
Commitments *(note 10)*	
Subsequent events *(note 13)*	
SHAREHOLDERS' EQUITY	
Share capital *(note 8)*	**72,141**
Retained earnings	**472**
	72,613
	101,751

See accompanying notes to the consolidated financial statements.

On behalf of the Board,

Murph N. Hannon
Director

Barry M. Heck
Director

Consolidated Statement of Earr [illegible]

For the Month Ended December 31

($ thousands, except per share amounts)	2006
Revenue	
Petroleum and natural gas sales	4,854
Royalties, net of Alberta Royalty Tax Credit	1,020
	3,834
Interest and other income	260
	4,094
Expenses	
Operating	1,008
Transportation	84
General and administrative	658
Interest	11
Depletion, depreciation and accretion	1,563
	3,324
Net earnings before future income taxes	770
Future income taxes *(note 9)*	298
Net earnings	472
Retained earnings, beginning of period	–
Retained earnings, end of period	472
Basic and diluted earnings per share *(note 8)*	0.01

See accompanying notes to the consolidated financial statements.

Consolidated Statement of C

For the Month Ended December 31

($ thousands)	2006
Cash provided by (used in):	
Operating	
Net earnings	**472**
Items not involving cash:	
Future income taxes	**298**
Depletion, depreciation and accretion	**1,563**
	2,333
Changes in non-cash working capital *(note 12)*	**(263)**
	2,070
Financing	
Revolving credit facility advances	**876**
	876
Investing	
Capital expenditures	**(4,338)**
Transaction costs	**(818)**
Cash acquired on acquisition *(note 4(b))*	**9**
Change in non-cash working capital *(note 12)*	**774**
	(4,373)
Decrease in cash	**(1,427)**
Cash, beginning of period *(note 4(a))*	**1,263**
Bank overdraft, end of period	**(164)**

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Berkana Energy Corp. ("Berkana" or the "Company") was incorporated under the laws of the Province of Alberta and commenced commercial operations on December 1, 2006 pursuant to an Acquisition Agreement between Murphy Oil Canada ("Murphy"), Mach Resources Ltd. ("Mach") and Rosetta Exploration Inc. ("Rosetta"). Under the Acquisition Agreement, Mach acquired certain petroleum and natural gas assets (the "Rimbey Assets") owned by Murphy in exchange for 100 Mach common shares, and Rosetta acquired all of the issued and outstanding shares of Mach from Murphy in exchange for 269,988,560 Rosetta common shares. As such, Murphy owns approximately 80% of Rosetta's issued and outstanding shares. For accounting purposes, the acquisition was recorded as a reverse takeover whereby Mach is deemed to have acquired Rosetta. As the acquisition of the Rimbey Assets by Mach from Murphy is between entities under common control, the net assets were recorded at their carrying values as reported by Murphy. Rosetta subsequently changed its name to Berkana and consolidated all of its issued and outstanding common shares on a five-for-one basis.

Berkana is engaged in the exploration for, and acquisition, development and production of petroleum and natural gas predominately in Western Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

(a) Principles of consolidation

The consolidated financial statements include the accounts of Berkana and its wholly owned subsidiary companies. All material intercompany accounts and transactions have been eliminated.

(b) Measurement uncertainty

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from these estimates.

Amounts recorded for depreciation, depletion and accretion, asset retirement costs and obligations and amounts used for ceiling test and impairment calculations are based on estimates of natural gas and crude oil reserves and the future costs required to develop those reserves. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of changes in such estimates in future periods could be material.

Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgements, including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property, plant and equipment balance.

(c) Property, plant and equipment

(i) Capitalized costs

The Company uses the successful efforts method to account for exploration and development expenditures. Leasehold acquisition costs are capitalized. If proved reserves are found on an undeveloped property, leasehold costs are transferred to proved properties. Costs of undeveloped leases are generally expensed over the life of the leases. In certain cases, a determination of whether a drilled exploration well has found proved reserves cannot be made immediately. This is generally due to the need for a major capital expenditure to produce and/or evacuate the hydrocarbons found. The determination of whether to make such a capital expenditure is usually dependent on whether further exploratory wells find a sufficient quantity of additional reserves.

The Company capitalizes well costs in property, plant and equipment when the well has found a sufficient quantity of reserves to justify its completion as a producing well, and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Company re-evaluates its capitalized drilling costs at least annually to ascertain whether drilling costs continue to qualify for ongoing capitalization. Other exploratory costs are charged to expense as incurred. Development costs, including unsuccessful development wells, are capitalized. The Company does not capitalize general and administrative costs.

Oil and gas properties are evaluated by field for potential impairment if a significant event or change occurs. This can include a significant decrease in oil and gas prices, revisions to proved reserves, changes in operating expenses or changes in its operating environment. Other properties are evaluated for impairment on a specific asset basis or in groups of similar assets as applicable. An impairment is recognized when the estimated undiscounted before tax future net cash flows of an evaluated asset are less than its carrying value.

Corporate assets are recorded at cost.

(ii) Depletion and depreciation

Depreciation and depletion of producing oil and gas properties is recorded based on units of production. Unit rates are computed for unamortized exploration drilling and development costs using proved developed reserves and for unamortized leasehold costs using all proved reserves. Proved reserves are estimated by independent engineers and are subject to future revisions based on availability of additional information. Asset retirement costs are amortized over proved reserves using the unit-of-production method. Gains and losses on asset disposals or retirements are included in income as a separate component of revenue.

Corporate assets are depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

(d) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production method based on estimated proved developed reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Asset retirement obligations (continued)

charged against the asset retirement obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligations and the recorded liability is recognized as a gain or loss in the Company's statement of operations in the period in which the settlement occurs.

(e) Joint operations

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(f) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net earnings in the period in which the change is substantively enacted. A valuation allowance is recorded to the extent that the realization of future tax assets is not more likely than not.

(g) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party.

(h) Basic and diluted per share amounts

Basic per share amounts are calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, common shares of the Company at their average market price for the period.

(i) Stock-based compensation

Under the Company's stock option plan described in note 8(c), options to purchase common shares are granted to directors, officers, employees and consultants at current market prices or higher on the date of grant. Stock-based compensation expense is recorded in the statement of operations for all options granted with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values of the options at the time of the grant as determined using a Black-Scholes option pricing model. The expense is recognized on a straight-line basis over the vesting period of the option. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. The Company incorporates an estimated forfeiture rate for stock options that will not vest.

(j) Financial instruments

Financial instruments are recorded at their fair value on the balance sheet date with changes in the fair value recognized to earnings.

(k) Share consolidation

Common share data has been presented to reflect the five-for-one share consolidation on December 1, 2006.

3. NOTE RECEIVABLE

The Company has a note receivable in the amount of $0.5 million that bears interest at a rate of 10% and is due on demand. As of December 31, 2006, the Company had demanded collection on this note and subsequently received payment after period end (see note 13(a)).

4. ACQUISITIONS

(a) Prior to the closing of the Acquisition Agreement and pursuant to an Asset Conveyance Agreement, Murphy transferred the Rimbey Assets to Mach in exchange for 100 Mach common shares. As the acquisition of the Rimbey Assets by Mach from Murphy is between entities under common control, the net assets were recorded at their carrying values as follows:

Consideration	
Net assets received:	
100 common shares of Mach *(note 8)*	**41,219**
Purchase Price and Carrying Value	
Net assets received:	
Petroleum and natural gas properties	**54,151**
Cash	**1,263**
Asset retirement obligations	**(6,043)**
Future income taxes	**(8,152)**
	41,219

As part of the Asset Conveyance Agreement, Mach assumed Murphy's commitments for natural gas transmission and processing of production from the Rimbey assets (see note 10).

As of March 21, 2007, the purchase price allocation is subject to change until such time as the Company receives the final statement of adjustments from Murphy.

(b) Under the Acquisition Agreement, Rosetta acquired all of the issued and outstanding shares of Mach from Murphy in exchange for 269,988,560 Rosetta common shares. As such, Murphy owns approximately 80% of Rosetta's issued and outstanding shares. The acquisition was accounted for under the purchase method as a reverse takeover whereby Mach acquired Rosetta. Rosetta subsequently changed its name to Berkana and consolidated all of its issued and outstanding common shares on a five-for-one basis.

The following table summarizes the consideration, purchase price allocation and fair value of the Rosetta net assets acquired by Mach:

Consideration	
Net assets received:	
53,997,712 [(1)] common shares of Rosetta *(note 8)*	**29,024**
Transaction costs	**1,898**
Total consideration	**30,922**
Purchase Price and Fair Value	
Net assets received:	
Petroleum and natural gas properties	**36,885**
Cash	**9**
Working capital deficiency	**(1,727)**
Revolving credit facility	**(2,224)**
Asset retirement obligations	**(1,034)**
Future income taxes	**(987)**
	30,922

(1) Shares issued reflect the five-for-one share consolidation.

5. PROPERTY, PLANT AND EQUIPMENT

December 31	2006
Petroleum and natural gas properties	**97,677**
Corporate assets	**316**
Accumulated depletion and depreciation	**(1,526)**
Net book value	**96,467**

As at December 31, 2006, salvage values of $8.9 million, undeveloped land costs of $7.5 million and $6.5 million of costs on unevaluated wells have been excluded from the costs subject to depletion.

The Company applied an impairment test to its petroleum and natural gas properties at December 31, 2006 and determined that there was no impairment. For the purposes of the December 31, 2006 impairment test of property, plant and equipment, the following benchmark prices were used:

	Edmonton Par Price (Cdn$/bbl)	AECO Gas Price (Cdn$/mmbtu)
2007	74.10	7.72
2008	77.62	8.59
2009	70.25	7.74
2010	65.56	7.55
2011	61.90	7.72
2012	63.15	7.85
2013	64.42	7.99
2014	65.72	8.12
2015	67.04	8.26
2016	68.39	8.40
2017	69.76	8.54
Thereafter [1]	2.0%	2.0%

Percentage change of 2.0% represents the change in future prices each year after 2017 to the end of the reserve life.

6. REVOLVING CREDIT FACILITY

The Company has a $25 million demand revolving operating credit facility (the "credit facility"). The credit facility provides that advances may be made by prime-based loans, guaranteed notes and letters of credit and guarantees. Prime-based loans bear interest at the bank's prime rate plus a facility margin, while guaranteed notes bear interest at the bank's base rate plus a facility margin. The facility margin charged by the bank is dependent on the Company's net debt to cash flow ratio at the time of determination. The letters of credit and guarantees bear interest at 2% per annum. The credit facility is secured by a fixed and floating charge on the assets of the Company. The credit facility has a covenant that requires the Company to maintain its working capital ratio at 1:1 or greater while the credit facility is outstanding. The working capital ratio is defined as current assets plus the unutilized portion of the credit facility divided by current liabilities less the balance drawn against the credit facility. The borrowing base of the credit facility is subject to an annual review by the lender. As at December 31, 2006, the Company had drawn $3.1 million against the credit facility that bears interest at a rate of 6.1%.

7. ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the carrying amount of the obligations associated with the retirement of the property, plant and equipment:

	2006
Asset retirement obligation – December 1, 2006	**6,043**
Asset retirement obligations acquired *(note 4(b))*	**1,034**
Liabilities incurred	**470**
Accretion expense	**38**
Asset retirement obligation – December 31, 2006	**7,585**

The following significant assumptions were used to estimate the asset retirement obligation:

	2006
Undiscounted cash flows	**11,119**
Credit adjusted discount rate (%)	**6.0**
Inflation rate (%)	**3.0**
Weighted average expected timing of cash flows (years)	**10.6**

8. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A and B common shares, no par value.
Unlimited number of Class A preferred shares, issuable in series, no par value.

On December 1, 2006, the Company's shareholders approved a consolidation of its common shares on a five-for-one basis. All common shares and per share amounts are presented to reflect the share consolidation.

(b) Issued

	Number (# of shares)	Amount
Class A Common Shares		
Balance – December 1, 2006 *(i)*	**13,499,428**	**41,219**
Issued upon acquisition *(note 4(b))*	**53,997,712**	**30,922**
Balance – December 31, 2006	**67,497,140**	**72,141**

(i) On December 1, 2006, Rosetta shareholders held a total of 13,499,428 common shares, which were subsequently exchanged pursuant to the acquisition agreement for an equivalent number of Berkana common shares.

(c) Stock options

The Company has a stock option plan (the "Plan"), administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the Plan, the options that have been granted vest at varying times ranging from vesting on the date of grant to vesting over a period of three years. All options expire on the earlier of five years from grant date or 30 days from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company. The Company has not issued any stock options for the period from inception to December 31, 2006 (see note 13(b)).

8. SHARE CAPITAL (continued)

(d) Employee stock purchase plan

The Company has an employee stock purchase plan ("ESPP") in which employees are provided the opportunity to receive up to 10% of their salary in common shares, which is then matched on a share for share basis by the Company. The Company did not issue shares under the ESPP during the one-month ended December 31, 2006.

(e) Basic and diluted earnings per share

Basic and diluted per share amounts are calculated using the weighted average number of shares outstanding during the period from December 1, 2006 to December 31, 2006 of 67,497,140. The Company uses the treasury stock method to calculate diluted earnings per share. During the period, the Company did not have any dilutive securities outstanding.

During the period from January 1, 2007 to March 21, 2007, Berkana issued 4,489,750 stock options with a weighted average exercise price of $1.61 per share. These transactions would have changed the potential common stock outstanding at the end of the period if the transactions had occurred prior to December 31, 2006 (see note 13(b)).

9. FUTURE INCOME TAXES

The Company's computation of future income tax expenses is as follows:

	2006
Expected income tax at 32.49%	**250**
Non-deductible items	**116**
Other	**(68)**
Future Income tax	**298**

The net future tax liability is comprised of:

	2006
Non-capital loss carryforwards	**2,283**
Asset retirement obligations	**2,200**
Share issue costs	**789**
Net book value of assets in excess of tax basis	**(13,929)**
Deferred partnership income	**(807)**
Other	**29**
	(9,435)

As at December 31, 2006, the Company had approximately $52.8 million in tax pools and $7.6 million in non-capital losses available for deduction against future taxable income.

Non-capital losses expire as follows:

2007	1,212
2008	1,392
2009	1,234
2010	–
Thereafter	3,771
	7,609

10. COMMITMENTS

The Company is committed to future payments for natural gas transmission and processing of production from the Rimbey assets and rent on office premises. Subsequent to period end, the Company modified the terms of its office premise lease. The new term of the lease is from February 1, 2007 to January 31, 2012. The Company is committed to paying a total of $2.4 million during the term of the lease. Payments required under these commitments for each of the next five years are as follows:

	2007	2008	2009	2010	2011	Thereafter
Office rent [1]	264	413	557	557	557	46
Demand contracts	362	248	87	75	25	–
	626	661	644	632	582	46

[1] Reflects the Company's office rent commitment under the original lease agreement for the period January 1, 2007 to January 31, 2007 and the modified lease agreement for the period February 1, 2007 to January 31, 2012.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

11. FINANCIAL INSTRUMENTS

(a) Fair value of financial assets and liabilities

Financial instruments of the Company consist primarily of bank overdraft, accounts receivable, note receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the credit facility. As at December 31, 2006, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

(b) Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business under normal industry sale and payment terms and are subject to normal credit risks. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

12. SUPPLEMENTAL CASH FLOWS INFORMATION

(a) Changes in non-cash working capital

Month Ended December 31	2006
Accounts receivable	**(3,383)**
Prepaid expenses and deposits	**(95)**
Accounts payable and accrued liabilities	**3,989**
	511

The change in non-cash working capital has been allocated to the following activities:

Month Ended December 31	2006
Operating	**(263)**
Investing	**774**
	511

(b) Interest

Month Ended December 31	2006
Interest paid	**11**
	11

13. SUBSEQUENT EVENTS

(a) On January 10, 2007, the Company received $0.5 million for settlement of an outstanding note receivable (see note 3).

(b) Between January 1, 2007 and March 21, 2007, the Company issued the following stock options to officers, directors, employees and consultants:

	Number	Exercise Price
	(# of options)	($)
January	4,194,750	1.60
February	114,000	1.80
March	181,000	1.68
Total	4,489,750	1.61

Corporate Information

Officers

Glenn D. Gradeen
President & Chief Executive Officer

Ross A. Clark
Managing Director, Exploration

Robyn H. Lore
Managing Director, Land

Terry L. McNeill
Vice-President, Operations

Michael D. Heule
Vice-President, Business Development

Robb D. Thompson
Vice-President, Finance & Chief Financial Officer

Robert T. Malcolm, Q.C.
Corporate Secretary

Head Office

Suite 2100
801 Sixth Avenue S.W.
Calgary, Alberta
Canada T2P 3W2

Phone:	(403) 221-7700
Fax:	(403) 221-7719
E-Mail:	info@berkanaenergy.com
Website:	www.berkanaenergy.com

Auditors

Ernst & Young LLP

Banker

Alberta Treasury Branches

Legal Counsel

Macleod Dixon LLP

Evaluation Engineers

Sproule Associates Limited

Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

CIBC Mellon Trust Company
Suite 600
333 Seventh Avenue S.W.
Calgary, Alberta
Canada T2P 2Z1
Phone: (403) 232-2400

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol: BEC

Abbreviations

bbls	barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic fet per day
2-D	two dimensional
3-D	three dimensional

Conversion of Units

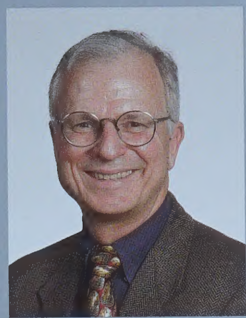
1.0 acre	=	0.40 hectares
2.5 acres	=	1.0 hectare
1.0 bbl	=	0.159 cubic metres
6.29 bbls	=	1.0 cubic metre
1.0 foot	=	0.3048 metres
3.281 feet	=	1.0 metre
1.0 mcf	=	28.2 cubic metres
0.035 mcf	=	1.0 cubic metre
1.0 mile	=	1.61 kilometres
0.62 miles	=	1.0 kilometre

Natural gas is equated to oil on the basis of 6 mcf : 1 bbl

Board of Directors

Harvey Doerr - Chairman (2)(3)

Mr. Doerr is the Executive Vice-President of Murphy Oil Corporation. Prior thereto, he held the position of President of Murphy Oil Company Ltd. and General Manager, Foreign Operations for Murphy Exploration and Production Company. Mr. Doerr is a Professional Engineer and holds a Bachelor of Science degree in Mechanical Engineering from the University of Alberta.



James A. Malcolm (2)(4)

Mr. Malcolm is an independent businessman and corporate director. He has held various positions with Rosetta Exploration Inc. since 1999, including Chairman of the Board of Directors and President and Chief Executive Officer. Prior thereto, he was President and Chief Executive Officer of AccuMap EnerData Corp. Mr. Malcolm holds a Bachelor of Arts degree from the University of Calgary and a Bachelor of Laws degree from the University of Alberta.

Glenn D. Gradeen

Mr. Gradeen is a director and President and Chief Executive Officer of Berkana Energy Corp. Prior thereto, he was Chief Executive Officer of Rosetta Exploration Inc. and President of Ocelot Energy Inc. Mr. Gradeen is a director of Vigilant Exploration Inc., Leader Energy Services Ltd and Cirrus Energy Corporation. He is a Professional Engineer and holds a Bachelor of Science degree in Geological Engineering from the University of Windsor.

George S. Dembroski (1)

Mr. Dembroski is a member of the Board of Directors of numerous private and public companies, including Murphy Oil Corporation, Cameco Corporation, Electrohome Limited, Extendicare Inc., Indexplus Income Fund and Middlefield Bancorp Limited. Prior to his retirement in 1998, Mr. Dembroski held various senior positions with the Royal Bank of Canada, including Vice-Chairman and Director of RBC Dominion Securities Limited. Mr. Dembroski is a Chartered Accountant and holds an Honours degree in Business Administration from the University of Western Ontario.

Barry M. Heck (1)(4)

Mr. Heck is director and President and Chief Executive Officer of The Westaim Corporation. Mr. Heck is a director of Kereco Energy Ltd. and NUCRYST Pharmaceuticals Corp. Mr. Heck holds a Bachelor of Laws degree from the University of Alberta.

Robert L. Lindsey (3)(4)

Mr. Lindsey is General Manager Worldwide E&P Accounting of Murphy Oil Corporation. Prior thereto, he was Vice-President, Finance of Murphy Oil Company Ltd. Mr. Lindsey holds a Bachelor of Science in Accounting from Louisiana Tech University.

Murph N. Hannon (1)(3)

Mr. Hannon is an independent businessman and President of Murcon Development Ltd., and is a founder and a board member of WestJet Airlines Inc. Mr. Hannon is a Professional Geologist and holds a Bachelor of Science degree in Geological Engineering from the Colorado School of Mines.

(1) Member of the Audit Committee

(2) Member of the Governance Committee

(3) Member of the Reserves Committee

(4) Member of the Compensation Committee

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